

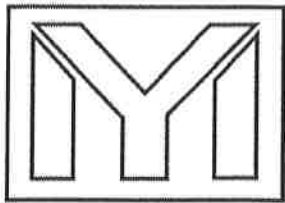
**HOUSING AUTHORITY OF THE
CITY OF FREDONIA, KANSAS**

**AUDITORS' REPORTS AND
FINANCIAL STATEMENT**

December 31, 2017

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS
AUDITORS' REPORT and FINANCIAL STATEMENT
For the Year Ended December 31, 2017
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YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Housing Authority of the City of Fredonia, Kansas
519 S. 15th Street
Fredonia, KS 66736

Report on the Financial Statements

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Housing Authority of the City of Fredonia, Kansas, as of and for the year ended December 31, 2017 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the applicable audit requirements of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Housing Authority of the City of Fredonia, Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Housing Authority of the City of Fredonia, Kansas, as of December 31, 2017, or changes in financial position or cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Housing Authority of the City of Fredonia, Kansas as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures – actual and budget (if applicable) (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however it is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The *schedule of expenditures of federal awards* (Schedule 2 as listed in the table of contents) is presented for the purpose of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards, and is also not a required part of the basic financial statement.

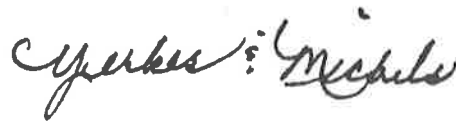
The *Supplementary Information* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Regulatory Required Supplementary Information* is fairly

stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2016 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2017 basic financial statement upon which we rendered an unmodified opinion dated September 25, 2018. The 2016 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financialofficer/municipal-services>. Such 2016 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statement. The 2016 comparative information was subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2016 basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2016 comparative information is fairly stated in all material respects in relation to the 2016 basic financial statement as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority of the City of Fredonia, Kansas's internal control over financial reporting and compliance.



YERKES & MICHELS, CPA, LLC
Independence, Kansas

September 25, 2018

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNCEMBUMERED CASH
REGULATORY BASIS

For the Year Ended December 31, 2017

| | Beginning Unencumbered <u>Cash Balance</u> | Prior Year Cancelled <u>Encumbrances</u> | Cash <u>Receipts</u> | <u>Expenditures</u> | Ending Unencumbered <u>Cash Balance</u> | Outstanding Encumbrances and Accounts <u>Payable</u> | Ending <u>Cash Balance</u> | |
|---------------------------------|--|--|-------------------------|---------------------|---|---|-------------------------------|--------------------------|
| <u>GOVERNMENTAL TYPE FUNDS:</u> | | | | | | | | |
| GENERAL FUND | \$ 12,851.34 | \$ - | \$ 222,326.62 | \$ 207,363.93 | \$ 27,814.03 | \$ 9,700.85 | \$ 37,514.88 | GENERAL FUND |
| <hr/> | | | | | | | | |
| TOTAL PRIMARY GOVERNMENT | \$ 12,851.34 | \$ - | \$ 222,326.62 | \$ 207,363.93 | \$ 27,814.03 | \$ 9,700.85 | \$ 37,514.88 | TOTAL PRIMARY GOVERNMENT |

COMPOSITION OF CASH-Primary Government

| | |
|----------------------------|---------------------|
| First National Bank | |
| Operating Checking Account | 114.39 |
| Public Fund Tax Account | 1,120.77 |
| Security Deposit Savings | 6,910.48 |
| Reserve Checking | 17,400.51 |
| Certificate of Deposit | 11,968.73 |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 37,514.88</u> |

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1A. MUNICIPAL FINANCIAL REPORTING ENTITY

The Housing Authority of the City of Fredonia, Kansas operates the city's housing projects. The Housing Authority is governed by a five member board selected by the Fredonia City Commissioners. The Housing Authority was formed on May 31, 1977 and is a related municipal entity, which was established to benefit the City of Fredonia, Kansas (the City) and its constituents.

The Housing Authority operates 56 housing units with the purpose to provide rental apartments for senior living for the elderly (62 years of age or older), handicapped, disabled persons, and persons of low income. The Housing Authority also receives Rural Development subsidies to help assist residents with their rent.

1B. BASIS OF ACCOUNTING

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenue and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Housing Authority has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Housing Authority to use the regulatory basis of accounting.

1C. REGULATORY BASIS FUND TYPES

General Fund— the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2A. BUDGETARY INFORMATION

The budget is prepared on the cash basis of accounting, as required by Rural Development utilizing Form RD 3560-7. The Housing Authority does not have a legal budget requirement.

2B. COMPLIANCE WITH LOAN REQUIREMENTS

The Housing Authority's loan requirements for USDA Rural Development Loans 002, 004, 005, and 006 require that a loan reserve account be established. The Housing Authority has an established debt reserve account with a balance of \$29,369.24; however, the amount required to be in this account is \$57,803.09 creating a deficit of \$28,433.85. This is considered material non-compliance to the financial statements. See the schedule of Findings and Questioned costs on pages 19-23 for more information.

2C. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL MATTERS

Management is not aware of any violations of compliance with Kansas Statutes or violations of other finance related legal matters, except as noted in Note 2B above.

NOTE 3 – DEPOSITS AND INVESTMENTS

As of December 31, 2017, the Housing Authority had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Housing Authority. The statute requires banks eligible to hold the Housing Authority's funds have a main or branch bank in the county in which the Housing Authority is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Housing Authority has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Housing Authority's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Housing Authority has no investment policy that would further limit its investment choices.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS (cont'd)

Concentration of credit risk. State statutes place no limit on the amount the Housing Authority may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Housing Authority's deposits may not be returned to it. State statutes require the Housing Authority's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. As of December 31, 2017, all deposits were secured.

At December 31, 2017 the carrying amount of the Housing Authority's deposits was \$37,514.88. The bank balance was \$47,595.51. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank in Wilson County. Of the bank balance, \$47,595.51 was covered by federal depository insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Housing Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 – LONG-TERM DEBT

See Schedules on pages 9 - 11.

NOTE 5 – OTHER POST EMPLOYMENT BENEFITS

The Housing Authority does not provide any type of post employment benefits.

NOTE 6 – DEFINED BENEFIT PENSION PLAN

The Housing Authority does not provide any type of defined benefit pension plan.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

NOTES TO THE FINANCIAL STATEMENT

December 31, 2017

NOTE 7 - RISK MANAGEMENT

The Housing Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Housing Authority carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

NOTE 8 – USE OF ESTIMATES

The preparation of regulatory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding, and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.

NOTE 9 – FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS

Multiple findings relating to non-compliance and internal controls over financial reporting and compliance have been documented. See the Schedule of Findings and Questioned Costs on page 19-23 for details.

NOTE 10 – CONCENTRATION OF REVENUE

The Housing Authority receives revenue from Rural Development, rental income from various renters, and interest income. In 2017, the Housing Authority received \$78,594.00 from USDA Rural Development, which made up 35.49% of its total revenue.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through the date of financial statements issuance September 25, 2018.

NOTE 4 - LONG TERM DEBT

Changes in long-term liabilities for the Housing Authority for the year ended December 31, 2017, were as follows:

| <u>Issue</u> | <u>Interest Rates</u> | <u>Date of Issue</u> | <u>Amount Issue</u> | <u>Date of Final Maturity</u> | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Reductions/ Payments</u> | <u>Net Change</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> |
|-------------------|-----------------------|----------------------|---------------------|-------------------------------|----------------------------------|------------------|-----------------------------|-----------------------|----------------------------|----------------------|
| Rural Development | | | | | | | | | | |
| FHA Loan 002 | 1.653 | 05/01/2004 | \$ 284,345.20 | 01/20/2037 | \$ 214,903.61 | \$ - | \$ 9,363.09 | \$ (9,363.09) | \$ 205,540.52 | \$ 3,202.35 |
| FHA Loan 004 | 2.573 | 05/01/2004 | 209,983.99 | 04/20/2048 | 186,334.74 | - | 4,114.83 | (4,114.83) | 182,219.91 | 4,553.73 |
| FHA Loan 005 | 2.565 | 07/01/1988 | 208,000.00 | 06/20/2093 | 177,135.88 | - | 2,998.25 | (2,998.25) | 174,137.63 | 2,289.79 |
| FHA Loan 006 | 2.379 | 09/27/1995 | 301,219.49 | 06/20/2086 | 262,559.96 | - | 3,597.29 | (3,597.29) | 258,962.67 | 4,130.35 |
| | | | | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | | <u>\$ 840,934.19</u> | <u>\$ -</u> | <u>\$ 20,073.46</u> | <u>\$ (20,073.46)</u> | <u>\$ 820,860.73</u> | <u>\$ 14,176.22</u> |

The City of Fredonia, Kansas Housing Authority

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 4 - LONG TERM DEBT (cont'd.)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023- 2027</u> | <u>2028- 2032</u> | <u>2033- 2037</u> | <u>2038- 2042</u> | <u>2043- 2047</u> |
|-----------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Principal: | | | | | | | | | | |
| FHA Loan 002 | \$ 9,232.94 | \$ 9,386.75 | \$ 9,543.07 | \$ 9,702.02 | \$ 9,863.61 | \$ 51,837.76 | \$ 56,301.01 | \$ 49,673.36 | \$ - | \$ - |
| FHA Loan 004 | 4,022.24 | 4,126.98 | 4,234.41 | 4,344.66 | 4,457.79 | 24,091.46 | 27,395.25 | 31,152.13 | 35,424.14 | 40,282.04 |
| FHA Loan 005 | 772.88 | 792.92 | 813.51 | 834.61 | 856.28 | 4,626.55 | 5,258.92 | 5,977.70 | 6,794.78 | 7,723.41 |
| FHA Loan 006 | 1,533.61 | 1,570.49 | 1,608.27 | 1,646.97 | 1,686.55 | 9,061.14 | 10,204.53 | 11,492.12 | 12,942.22 | 14,575.26 |
| Total Principal | <u>\$ 15,561.67</u> | <u>\$ 15,877.14</u> | <u>\$ 16,199.26</u> | <u>\$ 16,528.26</u> | <u>\$ 16,864.23</u> | <u>\$ 89,616.91</u> | <u>\$ 99,159.71</u> | <u>\$ 98,295.31</u> | <u>\$ 55,161.14</u> | <u>\$ 62,580.71</u> |
| Interest: | | | | | | | | | | |
| FHA Loan 002 | \$ 3,332.50 | \$ 3,178.69 | \$ 3,022.37 | \$ 2,863.42 | \$ 2,701.83 | \$ 10,989.44 | \$ 6,526.19 | \$ 1,782.30 | \$ - | \$ - |
| FHA Loan 004 | 4,646.32 | 4,541.58 | 4,434.15 | 4,323.90 | 4,210.77 | 19,251.34 | 15,947.55 | 12,190.67 | 7,918.66 | 3,060.76 |
| FHA Loan 005 | 4,515.16 | 4,495.12 | 4,474.53 | 4,453.43 | 4,431.76 | 21,813.65 | 21,181.28 | 20,462.50 | 19,645.42 | 18,716.79 |
| FHA Loan 006 | 6,194.03 | 6,157.15 | 6,119.37 | 6,080.67 | 6,041.09 | 29,577.06 | 28,433.67 | 27,146.08 | 25,695.98 | 24,063.03 |
| Total Interest | <u>\$ 18,688.01</u> | <u>\$ 18,372.54</u> | <u>\$ 18,050.42</u> | <u>\$ 17,721.42</u> | <u>\$ 17,385.45</u> | <u>\$ 81,631.49</u> | <u>\$ 72,088.69</u> | <u>\$ 61,581.55</u> | <u>\$ 53,260.06</u> | <u>\$ 45,840.58</u> |

The City of Fredonia, Kansas Housing Authority

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 4 - LONG TERM DEBT (cont'd.)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

| | <u>2048- 2052</u> | <u>2053- 2057</u> | <u>2058- 2062</u> | <u>2063- 2067</u> | <u>2068- 2072</u> | <u>2073- 2077</u> | <u>2078- 2082</u> | <u>2083- 2087</u> | <u>2088- 2092</u> | <u>2093- 2097</u> | <u>TOTAL</u> |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|
| Principal: | | | | | | | | | | | |
| FHA Loan 002 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 205,540.52 |
| FHA Loan 004 | 2,688.81 | - | - | - | - | - | - | - | - | - | 182,219.91 |
| FHA Loan 005 | 8,779.11 | 9,979.07 | 11,343.01 | 12,893.37 | 14,655.64 | 16,658.82 | 18,935.80 | 21,523.96 | 24,465.86 | 451.43 | 174,137.63 |
| FHA Loan 006 | 16,414.43 | 18,485.56 | 20,818.13 | 23,444.97 | 26,403.24 | 29,734.86 | 33,486.80 | 23,853.52 | - | - | 258,962.67 |
| | <u>\$ 27,882.35</u> | <u>\$ 28,464.63</u> | <u>\$ 32,161.14</u> | <u>\$ 36,338.34</u> | <u>\$ 41,058.88</u> | <u>\$ 46,393.68</u> | <u>\$ 52,422.60</u> | <u>\$ 45,377.48</u> | <u>\$ 24,465.86</u> | <u>\$ 451.43</u> | <u>\$ 820,860.73</u> |
| Interest: | | | | | | | | | | | |
| FHA Loan 002 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 34,396.74 |
| FHA Loan 004 | 15.51 | - | - | - | - | - | - | - | - | - | 80,541.21 |
| FHA Loan 005 | 17,661.09 | 16,461.13 | 15,097.19 | 13,546.83 | 11,784.56 | 9,781.38 | 7,504.40 | 4,916.24 | 1,974.34 | 20.59 | 222,937.39 |
| FHA Loan 006 | 22,223.77 | 20,152.64 | 17,820.07 | 15,193.23 | 12,234.96 | 8,903.34 | 5,151.40 | 1,122.34 | - | - | 268,309.88 |
| | <u>\$ 39,900.37</u> | <u>\$ 36,613.77</u> | <u>\$ 32,917.26</u> | <u>\$ 28,740.06</u> | <u>\$ 24,019.52</u> | <u>\$ 18,684.72</u> | <u>\$ 12,655.80</u> | <u>\$ 6,038.58</u> | <u>\$ 1,974.34</u> | <u>\$ 20.59</u> | <u>\$ 606,185.22</u> |

**HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS**

GENERAL FUND

**For the Year Ended December 31, 2017
(With Comparative Actual Totals for the year Ended December 31, 2016)**

| | Year Ended December 31, 2016 | Current Year Actual |
|---|------------------------------------|---------------------------|
| CASH RECEIPTS | | |
| Rental Subsidy Payments | \$ 63,507.00 | \$ 78,594.00 |
| Rental Income | 144,927.50 | 139,811.00 |
| Interest Income | 44.22 | 53.21 |
| Security Deposit Income | - | 614.00 |
| Miscellaneous | 3,552.19 | 3,254.41 |
| TOTAL CASH RECEIPTS | <u>212,030.91</u> | <u>222,326.62</u> |
| EXPENDITURES | | |
| Loan Principal Payments | 18,302.42 | 20,073.46 |
| Loan Overage Fees | 5,110.00 | 4,047.00 |
| Interest Expense | 15,947.26 | 14,176.22 |
| Capital Outlay | 20,844.04 | 9,665.78 |
| Repairs and Maintenance | 31,731.40 | 43,687.05 |
| Insurance | 20,901.68 | 17,628.60 |
| Services | 4,520.15 | 12,636.90 |
| Payroll Expenses | 61,802.50 | 53,748.88 |
| Payroll Taxes | 2,017.25 | 7,230.71 |
| Utilities | 23,598.50 | 20,284.63 |
| Office Expense | 3,924.62 | 3,778.95 |
| Advertising and Marketing | 33.75 | 119.75 |
| Security Deposit Expense | 850.00 | 233.00 |
| Miscellaneous Expense | 15.53 | 53.00 |
| TOTAL EXPENDITURES | <u>209,599.10</u> | <u>207,363.93</u> |
| RECEIPTS OVER (UNDER) EXPENDITURES | 2,431.81 | 14,962.69 |
| UNENCUMBERED CASH, BEGINNING | <u>10,419.53</u> | <u>12,851.34</u> |
| UNENCUMBERED CASH, ENDING | <u>\$ 12,851.34</u> | <u>\$ 27,814.03</u> |

Housing Authority of the City of Fredonia, Kansas
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Schedule 2
Page 1 of 1

| <i>Federal Grantor/Pass-Through Agency/Program</i> | <i>Federal CFDA Number</i> | <i>Pass-through Number</i> | <i>Federal Expenditures</i> |
|---|---------------------------------------|-----------------------------------|------------------------------------|
| United States Department of Agriculture | | | |
| Passed-Through Kansas Department of Agriculture Office of Rural Development | | | |
| Rural Rental Housing Loans | 10.415 | 19 003 198827078 Loan No. 2 | \$ 214,903.61 |
| Rural Rental Housing Loans | 10.415 | 19 003 198827078 Loan No. 4 | 186,334.74 |
| Rural Rental Housing Loans | 10.415 | 19 003 198827078 Loan No. 5 | 177,135.88 |
| Rural Rental Housing Loans | 10.415 | 19 003 198827078 Loan No. 6 | <u>262,559.96</u> |
| Total Rural Rental Housing Loans | | | 840,934.19 |
| Rural Rental Assistance Payments | 10.427 | 198827078 05 6 | <u>78,594.00</u> |
| Total Rural Rental Assistance Payments | | | 78,594.00 |
| Total United States Department of Agriculture | | | <u>919,528.19</u> |
| Total Expenditures of Federal Awards | | | <u><u>\$ 919,528.19</u></u> |

The accompanying notes are an integral part of this schedule.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2017

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Housing Authority of the City of Fredonia, Kansas (the Housing Authority) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Housing Authority, it is not intended to and does not present the financial position, changes in fund balances, or cash flows of the Housing Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas (regulatory basis) with exceptions as noted in Note 3 below. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Housing Authority did not elect to use the 10% de minimis indirect cost rate.

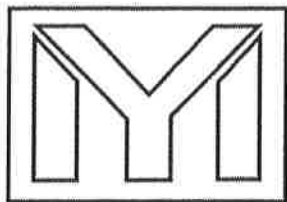
Note 3. Reconciliation of the Schedule of Expenditures of Federal Awards to the Financial Statements

- a. Rural Rental Housing Loans: The amount shown on the Schedule is equal to the balance at the beginning of the year for loans with continuing compliance requirements in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. However, regulatory basis requires that loans be recorded as revenue when received, and expensed when repaid.
- b. Rural Rental Assistance Payments: These funds are intermingled with non-federal funds. The federal portion of funds is assumed to be spent before other funding sources. Therefore, all federal Rental Assistance payments received are considered expended and federal rental assistance revenue equals federal expenditures.

Note 4. End of year balances for loans described in 2 CFR section 200.502(b)

The balances at December 31, 2017 for the four loans on the face of the Schedule are as follows:

- a. Loan #2: \$205,540.52
- b. Loan #4: \$182,219.91
- c. Loan #5: \$174,137.63
- d. Loan #6: \$258,962.67



YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants, Kansas Society of Certified Public Accountants

John D. Carroll, CPA

Emily S. Erbe, CPA

Ashley R. Osburn, CPA, MBAA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report

Board of Directors
Housing Authority of the City of Fredonia, Kansas
519 S. 15th Street
Fredonia, KS 66736

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*, the regulatory basis financial statement of the Housing Authority of the City of Fredonia, Kansas (Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statement, which collectively comprise the Housing Authority of the City of Fredonia, Kansas's basic financial statement, and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* to be a material weakness [Finding 2017-001].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* to be a significant deficiency [Finding 2017-002].

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Authority's regulatory basis financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item Finding 2017-003.

Housing Authority of the City of Fredonia, Kansas's Response to Findings

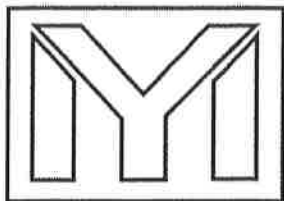
The Authority's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs* and the accompanying *Corrective Action Plan*. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


YERKES & MICHELS, CPA, LLC
Independence, KS

September 25, 2018



YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants, Kansas Society of Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

Board of Directors
Housing Authority of the City of Fredonia, Kansas
519 S. 15th Street
Fredonia, KS 66736

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Fredonia, Kansas's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2017. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations Requirements for Federal Awards* (Uniform Guidance); and the *Kansas Municipal Audit and Accounting Guide*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority of the City of Fredonia, Kansas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Housing Authority of the City of Fredonia, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Authority's response to the internal control over compliance findings, identified in our audit, are described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report in internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



YERKES & MICHELS, CPA, LLC
Independence, KS

September 25, 2018

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to financial statements noted?

☒ yes ☐ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

☐ yes ☒ no

Identification of major federal program(s):

CFDA Number

Name of Federal Program or Cluster

10.415

Rural Rental Housing Loans

Dollar Threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low risk auditee?

☐ yes ☒ no

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

Section II – Financial Statement Findings

Finding 2017-001

Criteria: AU-C section 315 defines internal control as a process effected by those charge with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. To obtain an acceptable internal control environment that reduces the risk of material misstatement of the financial statement or the required supplementary information, control activities and monitoring functions must be properly implemented and effectively designed. AU-C section 265.09-10.A11 states that the identification of an auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control is an indicator of a material weakness in internal control.

Statement of Condition: The Authority does not have a system of control over encumbrance calculation to verify accuracy, cutoff, and completeness.

Context: Substantive testing was performed with regards to encumbrances and their calculation, estimation, and completeness. No encumbrances had been recorded by the Authority except for erroneous payroll encumbrances. All individually significant disbursements occurring in January and February of 2018 were tested to determine if accruals were properly performed, and actual payroll liabilities were compared to amounts recorded. Additional non-statistical sampling of seven transactions increased the noted misstatement. The total misstatements detected were \$6,062.31 in vendor related encumbrances and an adjustment to reduce payroll encumbrances of \$14,055.68 which are considered material individually and in the aggregate. Additionally, the internal controls over encumbrances were discussed with management and were found to either be improperly implemented or ineffectively designed. Therefore, it was determined that the material misstatements would not have been detected by the Authority's internal controls.

Effect of Condition: The condition created a material misstatement of \$6,062.31 in vendor encumbrances and a reduction to payroll encumbrances of \$14,055.68 for a net adjustment of \$7,993.37. This was adjusted for the audited financial statement, and without correction it would create a reasonable possibility of future material misstatements of the financial statement.

Cause of Condition: The Authority has not designed nor implemented an adequate system of control regarding the calculation and completeness of encumbrances.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

Finding 2017-001 (cont'd):

Repeat Finding: This finding is repeated from prior year Finding 2016-002.

Recommendations: Controls should be in place to ensure accuracy and completeness of encumbrances. Additionally, disbursements in January and February of each year should be reviewed for possible accrual in the previous year.

View of responsible officials and planned corrective actions: Management concurs with the finding and will work to create a system that allows for accurate and complete recording of encumbrances. See corrective action plan on page 25.

Finding 2017-002

Criteria: AU-C section 315 defines internal control as a process effected by those charge with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. To obtain an acceptable internal control environment that reduces the risk of material misstatement of the financial statement or the required supplementary information, control activities and monitoring functions must be properly implemented and effectively designed. AU-C section 265 further explains that deficiencies in the design of a control function that can result in material misstatements should be considered, at minimum, to be a significant deficiency.

Statement of Condition: Due to the staff consisting of one primary full time manager and a part time individual that cannot take part in financial transactions, it is not possible for the Authority to properly segregate the recording, custody, and reviewing duties. The same person preparing checks also has custody of signed checks to mail out, and they perform bank reconciliations. Payroll reports and summaries are also not being reviewed.

Context: The segregation of tasks concerning the recording function, custody of assets, and reviewing functions were discussed with management. It was noted that only the project manager handles financial transactions. This does not allow for a proper segregation of duties.

Effect of Condition: The lack of segregation of duties does not allow the Authority to have an effective system of control. This increases the risk of material misstatement whether due to fraud or error and provides the opportunity for the misappropriation of assets. We consider this to be a significant deficiency.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

Finding 2017-002 (cont'd):

Cause of Condition: The current workload and budget of the Authority does not allow for additional staff to be hired.

Repeat Finding: This finding is repeated from prior year Finding 2016-003.

Recommendations: We recommend that the office staff continually review their procedures for opportunities to increase the segregation of duties in the office as well as the overall internal controls and oversight over the accounting functions in the office. We recommend the Board be aware of the importance of segregating the office duties in order to maintain a good internal control structure that will aid in the prevention and detection of errors and irregularities whether caused by fraud or human error. We recommend that signed checks be mailed out by someone other than the Director to segregate recording and custody functions; that all bank reconciliations continue to be reviewed, and that review be documented; and that all payroll reports and summaries be reviewed and that review be documented.

View of responsible officials and planned corrective actions: Management concurs with the finding and will work to incorporate more mitigating controls through board oversight. At this time, it is not economically feasible to hire additional staff. See the Corrective Action Plan developed by the Authority on page 25.

Finding 2017-003:

Criteria: The consolidated loan resolution, dated November 2002, states that the Authority will transfer a minimum of \$13,294.78 per year into a reserve account until the minimum balance of \$132,947.80 is reached. The balance requirement is reduced by any approved withdrawals. Per United States Department of Agriculture's Rural Development Office, the required balance as of December 31, 2017 was \$57,803.09.

Statement of Condition: The actual balance in the reserve fund as of December 31, 2017 is \$29,369.24, which is a material deficit of \$28,433.85.

Context: The actual reserve balance was compared to the required reserve balance as of December 31, 2017.

Effect of Condition: The condition created material non-compliance of \$33,973.64. This also creates the need for even larger transfers to the reserve account in future years which restricts cash that may be needed for other purposes.

HOUSING AUTHORITY OF THE CITY OF FREDONIA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

Finding 2016-003 (cont'd)

Cause of Condition: The Authority did not have a system of control in place to ensure required transfers to the reserve account are made. A workout plan has been developed with Rural Development and monthly transfers have been increased with the hope to eliminate the deficit in two to three years.

Repeat Finding: This finding is repeated from prior year Finding 2016-004.

Recommendations: Controls should be in place to ensure all annual required transfers to the reserve account are being made. Additionally, catch-up transfers will need to be made based off of Rural Development's recommendations.

View of responsible officials and planned corrective actions: Management concurs with the finding and they've developed a system that allows for proper transfer of reserve required deposits. Additionally, the Authority has created a spreadsheet to begin tracking the required balance for any point during the year. See corrective action plan on page 25.

Section III – Federal Award Findings and Questioned Costs

Rural Rental Housing Loans – CFDA #10.415

No findings to report.

**HOUSING AUTHORITY OF THE CITY OF FREDONIA
519 S. 15TH STREET – OFFICE
FREDONIA, KS 66736
PHONE (620) 378-3911 FAX (620) 378-3949**

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2017**

Finding 2016-002:

The board is working to develop appropriate controls over encumbrances. However, no policy was implemented in 2017 and no encumbrances were recorded by the Housing Authority in 2017. Therefore, this finding will be repeated for 2016.

Finding 2016-003:

The board is working to develop mitigating controls for the lack of segregation of duties. However, it is determined that it is not economically feasible to increase staff size which would be required to adequately segregate duties. Therefore, this finding will be repeated for 2017; however, mitigation of risks by the board have reduced the finding to a significant deficiency.

Finding 2016-004:

While the organization is working to remedy the issue of a deficit in the reserve funds, the balance remains inadequate based on loan requirements. The deficit is still material to the financial statements and this finding will be repeated in 2017.

HOUSING AUTHORITY OF THE CITY OF FREDONIA
519 S. 15TH STREET – OFFICE
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PHONE (620) 378-3911 FAX (620) 378-3949

Corrective Action Plan

Finding 2017-001: To ensure monthly transfers are being made to the reserve account, a reminder has been setup in an electronic calendar. The board will also review monthly financial reports and check to make sure required transfers have been made. Additionally, the Housing Authority has a workout plan with Rural Development to transfer additional funds to make up prior year deficits to the reserve account.

Finding 2017-002: The board will work with the project manager to review payments made in January and February. Items found to be for prior year expenses will be recorded as encumbrances. The final encumbrance entry will be reviewed by the board and the review will be documented.

Finding 2017-003: The project manager and the board will review current procedures and work to ensure the maximum benefit from mitigating controls is obtained. However, the board does not feel that it is economically feasible to hire additional staff at this time.

Signed: Gayle Schmidt

Title: Project Manager